

VZCZCXRO2551
OO RUEHBZ
DE RUEHC #7347/01 3490012
ZNR UUUUU ZZH
O 142352Z DEC 07
FM SECSTATE WASHDC
TO UN SECURITY COUNCIL COLLECTIVE IMMEDIATE
RUEHGB/AMEMBASSY BAGHDAD IMMEDIATE 4493
RUEHKU/AMEMBASSY KUWAIT IMMEDIATE 2438
RUCNDT/USMISSION USUN NEW YORK IMMEDIATE 0046

UNCLAS SECTION 01 OF 03 STATE 167347

SIPDIS

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [EFIN](#) [AA](#)
SUBJECT: EXTENDING THE LIFE OF THE IAMB FOR IRAQ

REF: STATE 165490

11. (U) This is an action request. See paragraph 6.

12. (U) Objective: To explain the role of the IAMB and ensure that the Arab Fund for Economic and Social Development is aware that the renewal of the Development Fund for Iraq (under a new UNSCR) will also require renewal of the IAMB. UNSC capitals may also draw on these points if asked about the IAMB when discussing the MNF-I/DFI renewal (reftel).

13. (SBU) Background. The International Advisory and Monitoring Board for Iraq (IAMB) was created by UNSCR 1483 as an international oversight body to monitor the use of Development Fund for Iraq (DFI) funds -- which are primarily Iraq's petroleum revenues for the benefit of the people of Iraq. Its original membership consisted of senior level representatives from the UN, World Bank, IMF, and the Arab Fund for Economic and Social Development; following the IAMB's formation, the Government of Iraq (GOI) joined the board. The IAMB provides important oversight and transparency for the nearly \$24 billion in the DFI. To carry out its mandate, the IAMB contracts with outside accounting firms to audit the DFI for 12 month periods. Historically the IAMB has been heavily critical of the US administration of DFI funds during the CPA era. More recently the IAMB has focused its attention on the GOI and its lack of internal controls within the Ministry of Finance (MOF) and Central Bank of Iraq (CBI) for monitoring and accounting for DFI funds. The World Bank currently serves as the chair of the IAMB and will continue to do so until the end of 2007 when the IAMB mandate, the DFI, and immunities for the DFI, Iraq's petroleum revenues, and certain other assets are set to expire.

14. (SBU) As part of the resolution extending the MNF-I mandate and the DFI arrangements for the calendar year 2008 which the U.S. and UK introduced into the Security Council on December 10, we intend to seek also the extension of the mandate of the IAMB until the end of 2008. In addition, we will seek a complementary one-year extension of privileges and immunities for the fund, Iraq's petroleum revenues, and certain other assets. We have encountered resistance from various IAMB members to the prospect of extending the IAMB's mandate. The members of the IAMB feel that its DFI oversight responsibilities should be turned over to the Iraqi Committee of Financial Experts (COFE). Earlier this year, those countries and institutions participating in the International Compact with Iraq, including the UN, the IMF, and the World Bank, recommended the continuation of the DFI until a Single Petroleum Account is established by Iraq (target date 2008). The U.S./UK position is that as long as the DFI exists, and benefits from privileges and immunities conferred by the Security Council, there must be international oversight of the use of those funds. In the past, donor countries,

including members of the Security Council, have judged the role of the IAMB to be critical. It is our judgment that in order to successfully obtain support from the Security Council for an extension of DFI authorities, we will need to ensure the complementary role of the IAMB continues as long as the DFI is in existence. On behalf of the UN, Warren Sach, the UN Comptroller, plans to brief the Council on Tuesday, December 18 on DFI/IAMB extension.

15. NEA/I met with the IMF members (Bert Keuppens and Mary Hoare) at their request to discuss the DFI/IAMB extension on Friday, December 7, and EEB also engaged the World Bank, Caroline Harper, to deliver the same message. The IMF representatives expressed some fatigue about their continued oversight responsibilities for the DFI but said that they recognized the importance of the DFI immunities and would continue to assist Iraq by serving in this capacity. They outlined their vision for the role that the IAMB will play in 2008 by saying that while they will not abdicate responsibility for DFI oversight, they will task most of the functions of the IAMB to COFE and outline strict benchmarks to which COFE will adhere. The USG plans to work with the GOI and IAMB to assist in the transition from IAMB to COFE oversight. In this regard 2008 will be a dry run for COFE under the watchful eye of the IAMB. Mr. Keuppens indicated that the next IAMB meetings, scheduled for Dec. 12-13, will be postponed until January, at which point the next UNSCR will most likely be a reality. Mr. Keuppens indicated that he was attending the meeting with NEA and EEB on behalf of

STATE 00167347 002 OF 003

the IAMB writ large and would carry this message forward to the rest of the members of the IAMB. The World Bank also indicated it is willing to serve on the Board for another year, but requested clearer guidance from the USG on goals and outcomes for the remaining oversight period.

End
Background.

16. (SBU) Action Request(Embassy Kuwait): Embassy Kuwait is requested to inform the Arab Fund for Economic and Social Development at the most senior appropriate level as soon as possible regarding the upcoming UNSCR extending the current arrangements for the DFI/IAMB. Coordination with the UK should be undertaken where appropriate. (Note: Additional information regarding the MNFI/DFI/IAMB renewal UNSCR can be found in Reftel State 165490)

(UNSC Members): If asked in the context of discussing renewal of the MNF-I/DFI (reftel), Posts are authorized to draw on background and Q's and A's in this message. (Note: Additional information regarding the MNFI/DFI/IAMB renewal UNSCR can be found in Reftel State 165490)

The following Q,s and A,s can be used when engaging these institutions.

Begin Q,s and A,s:

Q: Development Fund for Iraq (DFI) was established during the occupation/transition.
Why does the DFI still need to exist now that there is a sovereign government?

A:

z The DFI was established to serve as the single account for all Iraqi oil and natural gas proceeds. A single oil proceeds account increases transparency and helps to facilitate an equitable distribution of Iraq,s natural resources among the various groups in Iraq. This has been shown to be the case in several other countries.

z Maintaining a single, transparent account into which all of Iraq,s oil proceeds are deposited is an important confidence building measure among the various groups in Iraq as they continue to make progress on oil and revenue sharing laws.

Q: What does the International Compact with Iraq (ICI) say about the DFI?

A:

z The ICI calls for the establishment of a Single Petroleum Account to succeed the DFI as a priority action for ¶2008. All revenues from petroleum operations due to the Government of Iraq are to be deposited into this account. (Section 4.1.1).

Q: Why should the DFI continue to merit privileges and immunities?

A:

z The international community agreed that it was unjust to punish the Iraqi people for the misdeeds of Saddam Hussein,s regime, so it granted immunities to the DFI (and other Iraqi assets) to protect Iraqi funds crucial to the reconstruction of Iraq from the risk of attachment due to the enormous amounts of outstanding Saddam-era debt.

z While the GOI has made great strides in concluding bilateral debt agreements with many countries, immunity from attachment remains an important component of the DFI.

z Providing immunities to the DFI (and other Iraqi assets) sends an important signal that the international community remains united behind the Iraqi government,s efforts to rebuild and reform.

z Removing immunities now could economically destabilize the nascent Iraqi economy and thereby further destabilize Iraq.

STATE 00167347 003 OF 003

z Iraq must still conclude debt deals with several major creditors, as well as address the pending lawsuits against Saddam that arose post-September 11, 2001.

z We support the extension of these immunities on a limited one year basis, as the GOI has requested, and anticipate that the need for these immunities will be reduced or eliminated within this one year period.

Q: Why does the International Advisory and Monitoring Board for Iraq (IAMB) need to continue?

A:

z We expect that as long as the international community agrees to extend the DFI and provide the fund with immunities there should be international oversight of how the DFI is managed. Because the IAMB has played this role for the last three years the board members are best placed to provide the oversight and transparency necessary.

z It is our strong desire to see the IAMB help increase the capacity of COFE to take on the roles and responsibilities currently exercised by the IAMB and ensure a seamless oversight transition from the DFI to its successor single oil proceeds account.

z We anticipate that the IAMB,s responsibilities will

cease as Iraq normalizes its financial arrangements by succeeding the DFI through the establishment of a single petroleum account.

It is also our expectation that the Security Council will expect the IAMB to continue its role as long as the DFI exists.

Q: How long do you anticipate DFI will exist?

A:

z Maintaining a single account into which all of the GOI hydrocarbon revenues are deposited will continue to play an important role in the reconciliation process for some time to come. However, we anticipate that the GOI will establish the successor account to the DFI by the end of 2008 as provided for in the ICI (Section 4.1.1).
RICE